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FACULTY OF ECONOMICS

DEPARTMENT OF FINANCE

Analýza vybraných IPO na finančním trhu v USA  
Analysis of Selected IPO in the US Financial Market

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## Bachelor Thesis Assignment

Student: **Qianwen Li**  
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**Analysis of Selected IPO in the US Financial Market**

### Description:

1. Introduction  
2. Characteristics of the main principles of the IPO  
3. Description of the functioning of the IPO in USA  
4. Comparison of the selected IPO  
5. Conclusion  
Bibliography  
List of Abbreviations  
Declaration of Utilization of Results from the Bachelor Thesis  
List of Annexes  
Annexes

### References:

CHISHOLM, Andrew M. *An Introduction to Capital Markets: Products, Strategies, Participants*. 4th ed. Chichester: J. Wiley, 2002. 655 p. ISBN 978-0471-49866-7.  
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Extent and terms of a thesis are specified in directions for its elaboration that are opened to the public on the web sites of the faculty.

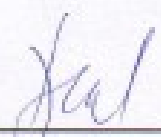
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Herewith I declare that I elaborated the entire thesis, including all annexes, independently.

Ostrava dated 7th May 2013

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## Content

1. Introduction .....	5
2. Characteristics of the Main Principles of the IPO .....	6
2.1 The definition of IPO.....	6
2.2 Origin of IPO.....	6
2.3 Value of IPOs.....	8
2.4 Largest IPOs.....	8
2.5 Roles of IPO .....	9
2.5.1 Reasons for listing .....	9
2.5.2 Roles of IPO .....	10
2.5.3 Advantages and disadvantages of IPO.....	11
2.6 The suitable time for IPO as a company.....	13
2.7 The preparation for IPO in the United States .....	13
2.8 The criteria for selecting underwriters.....	15
2.9 IPO timetable.....	16
3. Description of functioning of IPO in U.S. Financial market.....	25
3.1 Description of functioning of IPO in NYSE .....	25
3.1.1 An overview of NYSE.....	25
3.1.2 History of NYSE .....	26
3.1.3 Index in NYSE .....	27
3.1.4 NYSE Euronext.....	28
3.1.5 NYSE-listed steps.....	28
3.2 Description of functioning of IPO in NASDAQ .....	34
3.2.1 An overview of NASDAQ.....	34
3.2.2 History of NASDAQ .....	35
3.2.3 Index in NASDAQ .....	37
3.2.4 NASDAQ OMX Group <sup>SM</sup> .....	38
3.2.5 NASDAQ-listed steps .....	39
3.3 Latest IPO in US .....	44
4. Comparison of the Selected IPO .....	46
4.1 Analysis of Qihoo IPO .....	46
4.1.1 Company Description.....	46
4.1.2 Process of IPO .....	47
4.1.3 Capital market indicators.....	49
4.2 Analysis of Baidu IPO .....	52
4.2.1 Company description.....	52
4.2.2 Process of IPO .....	52
4.2.3 Capital market indicators.....	57
4.3 Comparison of IPO of Qihoo and Baidu .....	60
4.4 Comparison of IPO of NYSE and NASDAQ.....	60
4.4.1 The choice of the stock exchange.....	60
4.4.2 Comparison of listing standards of NYSE and NASDAQ .....	63
4.4.3 Comparison of process of IPO in NYSE and NASDAQ.....	64
4.5 2012 IPO End-of-Year Snapshot .....	65

4.6 Summary .....	66
5. Conclusion.....	67
Bibliography.....	68
List of Abbreviations.....	69
Declaration of Utilization of Results from a Diploma (Bachelor) Thesis	

# 1. Introduction

An initial public offering (IPO) occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will develop.<sup>1</sup> Once a company achieves IPO successful, then it can apply for going public. From this, we can know that IPO is so related to stock exchange market. And we can hear much news about IPO every day. IPO has developed for several hundreds years and it plays a more and more important role in stock market.

For developing and globalization of economy, finance instruments' innovations tend to be much more significant. Many countries make efforts for it and make advance from some extent. America can be an idol in the progress of economy and many countries can gain experience from it. And now, this phenomenon contributes to finance. As we know, America stock market has a long history in security market.

The objective of this thesis is to introduce how IPO works in the USA by the comparison of the selected IPO. In the first part is described the characteristics of the main principles of the IPO, including histories, definition and functions of IPO and an overview of worldwide IPO. Moreover, we will describe the process of IPO by different stages and its criteria when going public. And in the second part, analyzing selected IPOs in US such as NYSE and NASDAQ in detail and some comparisons in NYSE and NASDAQ. The analysis will divided into different parts such as process of IPO, listing requirements and so on. Especially, there are two companies from NYSE and NASDAQ will be analyzed through their development, IPO process and financial data.

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<sup>1</sup> Source : <http://www.wenku.baidu.com>

## 2. Characteristics of the Main Principles of the IPO

For stock exchange market has existed for several hundreds years, so does IPO. As diversity of economy market, IPO has changed a lot. Moreover, it attracts more investors and contributes to liquidity. This part aims at defining IPO and how it origins and develops in the following years especially in USA as a important financial market.

### 2.1 The definition of IPO

An initial public offering (IPO) or stock market launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time. Through this process, a private company transforms into a public company. Initial public offerings are used by companies to raise expansion capital, to possibly monetize the investments of early private investors, and to become publicly traded enterprises. A company selling shares is never required to repay the capital to its public investors. After the IPO, when shares trade freely in the open market, money passes between public investors.

### 2.2 Origin of IPO<sup>2</sup>

IPO has an origin in Europe and then develop a lot in different countries. The earliest form of a company which issued public shares was the publicani during the Roman Republic. Like modern joint-stock companies, the publicani were legal bodies independent of their members whose ownership was divided into shares, or partes. There is evidence that these shares were sold to public investors and traded in a type of over-the-counter market in the Forum, near the Temple of Castor and Pollux. The shares fluctuated in value, encouraging the activity of speculators, or *quaestors*. No evidence remains of the prices for which partes were sold, the nature of initial public offerings, or a description of stock market behavior. Publicanis lost

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<sup>2</sup> Source: <http://www.baike.baidu.com>



favor with the fall of the Republic and the rise of the Empire.

In March 1602 the “Vereenigde Oost-Indische Compagnie (VOC), or Dutch East India Company was formed. The VOC was the first modern company to issue public shares, and it is this issuance, at the beginning of the 17th century, that is considered the first modern IPO. The company had an original paid-up share capital of 6,424,588 guilders. The ability to raise this large sum is attributable to the decision taken by the owners to open up access to share ownership to a wide public. Everyone living in the United Provinces had an opportunity to participate in the Company. Each share was worth 3000 guilders (roughly equivalent to US\$1,500). All the shares were tradable, and the shareholders received receipts for the purchase. A share certificate documenting payment and ownership such as we know today was not issued but ownership was instead entered in the company’s share register.

From history, we can know that the first volume of exchange is far less than today. However, this is origin of IPO history. Just because it happens in 17<sup>th</sup> century, we can gain more opportunities to move forward today.

In the United States, the first IPO was the public offering of Bank of North America. From 1980 to 2001, the number of companies going public in the United States exceeded one per business day. The number of initial public offerings~IPOs has varied from year to year, however, with some years seeing fewer than 100 IPOs, and others seeing more than 400. These IPOs raised \$488 billion ~ in 2001 dollar. In gross proceeds, an average was \$78 million per deal. At the end of the first day of trading, their shares traded on average at 18.8 percent above the price at which the company sold them. For an investor buying shares at the first-day closing price and holding them for three years, IPOs returned 22.6 percent. Still, over three years, the average IPO under-performed the CRSP value-weighted market index by 23.4 percent and under performed seasoned companies with the same market capitalization and book-to-market ratio by 5.1 percent.

For U.S. stock market, many famous cases of IPO are known to us. And many successful companies are born according to IPO like Facebook. American has strength to lead other countries to make steps in IPO.

## 2.3 Value of IPOs<sup>3</sup>

Prior to 2009, the United States was the leading issuer of IPOs in terms of total value. Since that time, however, China (Shanghai, Shenzhen and Hong Kong) has been the leading issuer, raising \$73 billion (almost double the amount of money raised on the New York Stock Exchange and NASDAQ combined) up to the end of November 2011. The Hong Kong Stock Exchange raised 30.9 billion in 2011 as the top course for the third year in a row, while New York raised 30.7 billion.

## 2.4 Largest IPOs

The following table is about six largest IPOs in the world. These companies will be ranked by offer amount.

*Table 2.1 Largest IPOs*

Rank	Company name	Year	Offer amount
1	Agricultural Bank of China	2010	\$22.1 billion
2	Industrial and Commercial Bank of China	2006	\$21.9 billion
3	American International Assurance	2010	\$20.5 billion
4	Visa Inc.	2008	\$19.7 billion
5	General Motors	2010	\$18.15billion
6	Facebook, Inc.	2012	\$16 billion

Source: [http://baike.baidu/Initial\\_public\\_offering](http://baike.baidu/Initial_public_offering)

From the table 2.1, we can conclude that the largest amount of IPO occurred in recent years especially in 2010. And companies from China perform eminently in United States' financial market. We can know that China' companies will have much more great performance in the world.

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<sup>3</sup> Source : <http://www.baike.baidu.com>

## **2.5 Roles of IPO**

IPO plays an important part in going public of a company. Whether it successfully made depends the progress of its owners. The process of IPO is complicated and regulated, every company should obey the rules of it in order to realize IPO. For IPO, there are many reasons for listing and how it works.

### **2.5.1 Reasons for listing**

When a company lists its securities on a public exchange, the money paid by the investing public for the newly issued shares goes directly to the company (primary offering) as well as to any early private investors who opt to sell all or a portion of their holdings (secondary offering) as part of the larger IPO. An IPO, therefore, allows a company to tap into a wide pool of potential investors to provide itself with capital for future growth, repayment of debt, or working capital. A company selling common shares is never required to repay the capital to its public investors. Those investors must endure the unpredictable nature of the open market to price and trade their shares. After the IPO, when shares trade freely in the open market, money passes between public investors. For early private investors who choose to sell shares as part of the IPO process, the IPO represents an opportunity to monetize their investment. After the IPO, once shares trade in the open market, investors holding large blocks of shares can either sell those shares piecemeal in the open market, or sell a large block of shares directly to the public, at a fixed price, through a secondary market offering. This type of offering is not dilutive, since no new shares are being created.

Once a company is listed, it is able to issue additional common shares in a number of different ways, one of which is the follow-on offering. This method provides capital for various corporate purposes through the issuance of equity (see stock dilution) without incurring any debt. This ability to quickly raise potentially large amounts of capital from the marketplace is a key reason many companies seek to go public.

An IPO accords several benefits to the previously private company:

- enlarging and diversifying equity base,
- enabling cheaper access to capital
- increasing exposure, prestige, and public image,
- attracting and retaining better management and employees through liquid equity participation,
- facilitating acquisitions (potentially in return for shares of stock),
- creating multiple financing opportunities: equity, convertible debt, cheaper bank loans, etc.

### **2.5.2 Roles of IPO**

Most companies start out by raising equity capital from a small number of investors, with no liquid market existing if these investors wish to sell their stock. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to "go public" by selling stock to a large number of diversified investors. Once the stock is publicly traded, this enhanced liquidity allows the company to raise capital on more favorable terms than if it had to compensate investors for the lack of liquidity associated with a privately-held company. Existing shareholders can sell their shares in open-market transactions. With these benefits, however, come costs. In particular, there are certain ongoing costs associated with the need to supply information on a regular basis to investors and regulators for publicly-traded firms. Furthermore, there are substantial one-time costs associated with initial public

offerings that can be categorized as direct and indirect costs. The direct costs include the legal, auditing, and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public.

Firms' going public, especially for young growth firms, face a market that is subject to

sharp swings in valuations. The facts that the issuing firm is subject to the whims of the market makes the IPO process a high-stress period for entrepreneurs.

Because initial public offerings involve the sale of securities in closely-held firms in which some of the existing shareholders may possess non-public information, some of the classic problems caused by asymmetric information may be present. In addition to the adverse selection problems that can arise when firms have a choice of when and if to go public, a further problem is that the underlying value of the firm is affected by the actions that the managers can undertake. This moral hazard problem must also be dealt with by the market.

## **2.5.3 Advantages and disadvantages of IPO**

### ***IPO Advantages***

There are several advantages to going public:

#### ***Access to capital***

One of the most common reasons for going public is to raise primary capital to fund organic growth, repay debt or fund an acquisition. Further direct results include the following:

- once the company is public, it has access to an entirely new, incredibly deep and liquid source of capital for any future needs it may have.
- adding equity to the company's capital-raising toolkit helps equip the company with the tools to achieve optimal capital structure.
- after the company has been public for one year, it will be eligible to access the equity capital markets on demand via a more expeditious process through a shelf registration statement.

#### ***Increased Liquidity***

Listing on the NYSE has numerous benefits, not only for the company, but also for its shareholders. The IPO can be structured such that existing owners of the company can exit their position and receive proceeds for their shares. In addition, once the company is public, the existing owners have a public marketplace through which they can liquidate their holdings in a straightforward and orderly fashion at any time.

### *Branding event*

By listing on the NYSE, the company will receive worldwide media coverage through the financial markets, which provide constant live coverage on publicly traded companies. In addition, research analysts at broker-dealers will begin to write reports on the stock and the company, thus raising the profile of the company. Broader coverage across various sources will likely enhance the company's visibility, market share and competitive position.

### *Public currency for acquisitions*

Once the company is public, it can use its common stock to acquire other public or private companies in conjunction with, or instead of, raising additional capital.

### *Enhanced benefits for current employees*

Stock-based compensation incentives align employees' interests with those of the company. By allowing employees to benefit alongside the company's financial success, these programs increase productivity and loyalty to the company and serve as a key selling mechanism when attracting top talent. Furthermore, issuing equity-based compensation will allow the company to attract top talent without incurring additional cash expenses.

### ***IPO disadvantages***

There are several disadvantages to completing an initial public offering:

- significant legal, accounting and marketing costs, many of which are ongoing
- requirement to disclose financial and business information
- meaningful time, effort and attention required of senior management
- risk that required funding will not be raised
- public dissemination of information which may be useful to competitors, suppliers and customers.

## **2.6 The suitable time for IPO as a company**

In addition to the technical requirements, there are some other actual conditions affect the success of the IPO. When Investors are considering your IPO, they generally assess the success you find business opportunities and execute your business plan has been made. As a part of the issue of marketing, the company should find and communicate significant when it is in the execution of business plan. And also show a good balance sheet and consistent revenue and profit growth trend to investors in the past few years.

For an IPO, the company needed to find an updated, integrated development strategy to describe and assess the growth prospects for a product, the market, the competition field, business strategy, capabilities and growth targets. The business plan, as the foundation of this issue, should be credible, quantifiable and can be easily communicated with investors. The successful IPO has brought a lot of capital for the company. The following aspects are very important: a.the need for new capital proves that private ownership of giving up the business and hundreds of shareholders are attracted; b. the using plan of revenue should be consistent with the strategic direction of the company; c. you can clearly talk about this plan to public investors . Company managers should be skillful and experienced in operational and financial aspects of the company in order to win the confidence of investors and complete the mission as a public company. Similar standards and the specific independence requirements are also applied to the board of directors. The investment banks often assist in the recruitment of management or board of directors.

## **2.7 The preparation for IPO in the United States**

When IPO is performed in the United States, we need take some important steps for preparation. They are as following.

### *Selecting the underwriters*

The Company shall appoint investment bank as main bookkeeping underwriters.

### *The selection of consultants*

The company should carefully consider hiring a reputable lawyers and accountants to guide in the IPO process and provide services for the company. The company should also consider other advisers of the issuance process, such as stock valuation, remuneration or investor relations consultant.

### *Corporate restructuring*

With the assistance of investment banks, accountants, tax consultants and lawyers, the company should determine a rational structure of the listed businesses.

### *Preparing audited financial statements*

So as to be listed in the United States, the Company's financial statements should comply with U.S. GAAP or International Accounting Plan issued by IASB. The requirements of financial statements generally include a. 2-year audited consolidated financial statements (adding interim statements, if applicable) b. 3 years audited consolidated income statement, statement of cash flows and changes in equity (adding the interim report, if applicable) and c. a additional two years of income statement and data summary of balance sheet.

### *A review of related party transactions*

All internal trading related to the management or the board of directors, remuneration agreements or relationships need to be reviewed and to be resolved appropriately. Especially any loans must be repaid to the directors or the managers of listed companies or subsidiaries. The company should also consider and resolve any external cause negative market reaction (i.e., the behavior of edge ball of core business in a company).

### *The preparation of financial forecasts*

The company shall establish a financial model to quantify the company's business plan and expected growth. The investment bank would work closely with the management to model, do research for the assumption relied on model, and test the results of the valuation.



### *Determining compensation and stock option plans of management*

As part of the IPO process, many companies will be reviewed by the amount of equity held by executives and employees. These companies often grant additional stock options or other incentive to management by issuing price of IPO to increase managerial ownership and keep the price of new issuing management inspire and new investors of the company same. The directors will normally be granted compensation consultant when they consider the option. They will analyze industry trends and ownership of the comparable companies, underwriters give an opinion on whether the ownership and stock awards agree with market expectation.

### *Establish all the necessary controls and procedures to meet the requirements of the Sarbanes-Oxley Act*

Prior to listing, the company must have a specific financial controls and computer systems in order to effectively conduct business. In particular, companies may need to appoint independent directors or hiring additional audit, control or finance staff. All Sarbanes Oxley requirements should obey when the company IPO, the company should have a comprehensive plan to ensure compliance to the relevant provisions.

## **2.8 The criteria for selecting underwriters**

There are many types of investment banking: a global with full-service; small regional companies have global capabilities can provide a full range of services; regional companies have regional expertise to provide a wide range of products; small company specialized services to a particular industry or product. Each type of investment banks provide unique combination of services, and the success of the issue may be in syndication which including each type of investment banking.

When selecting the lead underwriter of the IPO underwriting team of investment banking, the company should consider whether bank previously served as the lead underwriter or co-lead underwriter of the IPO.

*The general level of experience of the bank, the number of transactions including IPO.*

Whether they run companies around the world or Chinese companies listed in the United

States.

#### *Industry experience.*

Whether banks have specific knowledge of the industry and the bank completed transactions in this industry.

#### *Distribution capabilities*

The process in regional sales of distribution office of the investment bank. In addition, whether the investment bank hires industry distributors' officers. The investment bank's sales office should have experience in the distribution of securities of foreign issuers and investment banks should have the capacity to conduct retail as well as to institutional investors.

#### *Reputation*

The reputation of the top investment banks can be brought to the trust of issue, especially when not very well-known for the public or potential investors of the issuer.

#### *The one-stop service*

IPO is just the beginning of long-term relationships with selected investment banks. In order to benefit from this relationship, the company should consider whether bank can provide additional services when choosing IPO underwriters such as stocks, bonds, consulting capabilities, other service's quality and depth.

## **2.9 IPO timetable**

The IPO need coordination of companies, underwriters, legal counsel, auditors, printers, consultants and other personnel. IPO can generally be completed in 15-20 weeks. It varies according to different market conditions timetable. Corporate restructuring, SEC reviewed, transaction scope and complexity and a variety of other factors will take time.

The main stages of the process are as follows.

## **1. Week 1**

### ***Organizing meetings and starting the due diligence***

The purpose of the organizational meeting is to ensure that all parties understand the structure of issue, time, tasks and responsibilities. These meetings are generally required to participate of person to the scene held at the law firm or corporate headquarters, we participate in the discussion and to ensure that everyone understand the transaction process, timetable and all other related issues. The underwriters will provide a detailed file of the organization as a framework to discuss these issues.

## **2. 2-5 weeks**

### ***To carry out due diligence***

Due diligence aims to ensure the accuracy, authenticity and integrity of the company's prospectus and in-depth understanding of the company and its business and operations. Due diligence activities are generally concerned about the company's business, financial, legal and accounting aspects. Each professional advisers play different roles in due diligence, investment bank mainly focused on the performance of the company's operations, management, finance, history, competitive position and business strategy.

### ***Business due diligence***

Business due diligence is completed by the underwriters in order to confirm the company's business strategy and future growth potential. As part of the process, the investment bank will conduct on-site inspections especially in the manufacturing and estate and interview the company's management, major customers and suppliers to understand every aspect of the company's business and financial statements. The knowledge is gained to help underwriters and management deliver strong and consistent information in subsequent marketing process. Business due diligence generally concerned about the whole business model, growth strategy, macroeconomic trends, industry trends, price structure, results of operations, products, markets, customers and suppliers, marketing and sales, management strategy, manufacturing, equipment, competition and competitive position, environmental issues, intellectual property, labor management system and structure, corporate governance including the board of

directors, audit and remuneration committees, their background and other index check.

#### *Financial due diligence*

Financial due diligence is generally done by the underwriters which aims to confirm the company's historical financial results for its future operations and financial prospects. The main areas of concern including the details of the capital structure, the historical financial information business, a detailed review of reading, quarterly budget (two years) and annual forecasts, budget and actual financial statements of the past eight quarters, revenue use and bonds and the impact of restrictive covenants .

#### *Legal due diligence*

Legal due diligence is generally done by a lawyer, the purpose is to confirm the company's legal records, important contracts and litigation. The main area of concern is litigation, compliance of local, national laws ,regulations, ownership of major assets, primarily accounts, contracts, corporate structure, debt agreements, related party transactions, environmental issues and intellectual property.

#### *Accounting due diligence*

Accounting due diligence is general cooperated by investment banks and the company's internal and external auditors. Audit due diligence generally need to review the audited financial statements and medium-term, the number analysis of U.S. GAAP adjustment and differences (if the financial statements are not prepared in accordance with U.S. GAAP or International Accounting Standards), the main accounting policies, mainly accounting assumptions, accounting policies, auditor management letter, internal financial, disclosure controls, Sarbanes-Oxley compliance and execution plan.

#### ***Draft registration statement and prospectus***

Before the company is listed in the United States, the company's securities must be registered with the SEC. The majority of Chinese companies preparing for an IPO whose F1 forms need to be registered. This form requires extensive disclosure and review of all issued participants to ensure that the contents of the table do not materially misleading omissions from a legal point of view. From a marketing perspective, the company can achieve the

valuation, the reaction of its advantages, strategies and prospects. In particular, the registration statement must solve the following issues.

#### *Business information*

Business described in the registration statement includes the company, business, major products and services, the advantage of the strategy over the past few years of business development, business characteristics, growth strategies, risk factors, revenue expected to use, the terms of the issue of securities, underwriting, tax and so on.

#### *Financial information*

The financial information in the registration statement includes the past three full fiscal year's audited financial statements, interim reports as well as summary financial statements in the past five years (the first two years may be unaudited) and capital information.

#### ***Management's discussion and analysis***

Management need to discuss the financial condition and operations in this section about past three years. This section should also discuss any foreseeable trend changes in the company's prospectus and the historical performance. In particular, this section includes historical financial performance, liquidity trend, the company's capital expenditures (current or future), expected sources of funding and trends in the company's capital resources, the success and failure of specific operations as well as any relevant trends, major or discuss matters and uncertainties.

#### *Management and corporate governance*

The registration statement includes a section elaborate the members of the board of directors of the company, the management, the identity , background of the members of the committee, the directors, management remuneration (usually combined), shareholdings and related parties holding more than 5%.

#### *Other matters*

The registration statement requires additional disclosures includes voting rights, dividend payments, compulsory purchase rights and other rights attached to the stock, the description of the company's property, the disclosure of pending legal proceedings, the company's major

contract information, control changes and other effects shareholders limit and the tax status of the company.

### ***Reorganization of legal, documents and agreements***

At this stage, the company's management, underwriters and legal advisers will collaborative draft legal document and implement the necessary restructuring of the company. The purpose of the underwriting document is to specify the terms of the issue, confirm that the due diligence process in the underwriting transactions, the allocate the issuance processes related risk to the parties involved; find any violation, fuzzy or other potential problems. Legal documents include underwriting agreements, comfort letters, legal advice, locking protocols and directors executives questionnaire. Once the company's registration statement is declared effective by SEC then the company's shares can be traded, the Sarbanes Manchester terms are suitable immediately for first reporting to the SEC. The company listed at this stage of the process will be found and corrected the relevant disclosure controls.

### ***Continue to help issuers prepare to become a public company***

The investment bank will assist the company in transition to a public company in a number of ways. This includes a discussion of valuation, the board and the committee's composition, the establishment of the system of internal financial and disclosure control. These problems do not need to be resolved at this stage, but the majority of companies are found to be prudent to get rid of or to prepare a plan at this stage as the prove documentation of adequate corporate governance control to take effect.

### ***Determine whether the company meets the conditions listed in the U.S. Stock Exchange***

At this stage, we need to choose a stock exchange for listing, determine whether it meets the listing requirements of the securities and to keep a stock logo.

## **3. 6-8 weeks**

### ***Completion of the registration statement to the SEC filings***

In companies, after investment banks and other advisers complete the drafting of the registration statement, the law will declare registering statement to SEC. As a foreign private

issuer, the declaration is confidential and will not be access to be public until the company confirmed that the SEC finish the completion of the review process for public reporting. At the same time filed with the SEC, the company also apply to list its shares in the selected stock exchange transactions.

#### **4. 9-16 weeks**

##### ***SEC review process***

Approximately 30 days after the injection side of the declaration submitted, SEC will issue some suggestions for the registration statement in the form of letter. The companies to be listed and their advisers need to draft the letter and modify the registration statement and then submitted to the SEC rendezvoused advice. It is common to revise and amend. Once companies, underwriters and lawyers think that further discussion with the SEC will not lead to registered major change, the company will publicly declare the registration statement, the preliminary prospectus printing, marketing and roadshow began issuing. It is difficult to prepare to predict how long it takes the SEC review process. From initial confidential reporting to the completion of the transaction, it will take 6-8 weeks. All issues need to be resolved with the SEC and the registration statement be effective must be completed prior to the IPO pricing.

##### ***Receiving the approval of the Stock Exchange on the listing and trading of the stock***

The company and its lawyers will receive the notice of the stock exchange that approve the stock can be traded.

##### ***Issue size, valuation and structure***

The underwriters will consider IPO for the interests of the investment groups, determine the number of shares issued to investors sales. After company is in consultation with the underwriters, it invite other members to join the Syndicate no later than this stage. Powerful syndicate can help ensure healthy competition and sufficient investor demand. At this stage, the underwriters will provide recommendations in following regards.

### *The amount and the price range of issued shares*

Determination of the issue size and price range is based on the due diligence to collect the data and feedback from the capital market's professionals. From many variables affect this decision, the company and the underwriters should consider valuation analysis, the amount of capital issuers need to raise, the amount of the issuer's need to raise capital, the right of control need to be kept, the financial performance of the issuer, the area of issued competition, stock market conditions, market and trading requirements, expecting the interest and the management of institutional and individual investors. When a company wants to price stock higher, this desire must be suppressed because determining an attractive price can ensure enough demand and strong market performance. If the issue fails, there are no stock finishing sales, the stock price fell after the release then it is extremely unfavorable for newly listed companies.

### *Marketing strategy*

The underwriting will create a comprehensive marketing plan to contain investment theme and the main selling point of the company. This program targets specific investors based on the company's geographic area, industry and investment entities.

### *Preparing roadshow materials*

The roadshow is a series of meetings with potential investors. The speech is generally completed by the key management personnel of the company, manuscripts and presentations made by the company and the underwriters. The underwriters also assist drilling the people who have roadshow presentations, preparing investors training materials for sale, arranging roadshow itinerary, offering travel, other logistical and target investors.

## **5. 17-19 weeks**

### *Printing the preliminary prospectus*

Once the major views of the SEC have been resolved, the company's shares have been approved quoted in the NASDAQ, the company will print preliminary prospectus. Preliminary prospectus, often become a 'red herring', includes issue price range as well as the sale of shares to the public disclosure of all the information needed. The company will use the



preliminary prospectus as core marketing and corporate disclosure documents. On the one hand, the preliminary prospectus as written documentation shows to potential investors. The underwriters will be printed in the prospectus distributed to thousands of potential investors. Using this distribution can create on the demand of issue. On the other hand, preliminary prospectus, as the best way to convey information, printed after significant changes in disclosures will postpone the issue. Once the preliminary prospectus is finalized, printed to SEC then the issue of marketing will start.

### ***Sales staff call investors***

Through their sales team, underwriters began to contact potential investors, introduce the company to them and arrange a meeting with the senior management of the company. After Syndication sales team is publicly declared in the registration statement, notify selected for the upcoming IPO institutional investors concerned about the hair before the start of the roadshow and improve the visibility of this issue.

### ***Starting issuing and roadshows***

Management make presentations to the sales team of underwriters, discuss the issue and the company's management, business, prospects and the issued start. After the speech to the sales team, the management will meet with potential investors in Asia, Europe and the United States. Roadshow includes the company's business operations, financial condition, performance, market, product and service presentations and followed by an informal question and answer session. Roadshow provides a rare opportunity for face-to-face with investors for the company, you can take the opportunity to show management skills, communication strategy, vision and goals. These memories are generally one-on-one, group and conference call. IPO roadshow usually lasts two weeks.

### ***Create a bookkeeping***

The SEC announced that it is not allowed to sell the stock before the effective date of the registration statement. After the roadshow started, the syndicate sales team contact institutions

and individual investors and collect intention. These intentions are credited to bookkeeping. The syndicated received feedback of the sales team collected every investor demand for stocks and modified accordingly bookkeeping. Accordingly, the syndicate also feedback to the sales team according to the quality of investors subscribes to dynamically determine the level and pricing placing.

### ***Pricing, placing and the end of the transaction***

The information about various price and size of investor demand will be provided by bookkeeping main manager through roadshows. As roadshow near the end, more detailed information are collected by the bookkeeping process, syndicate members will be more detailed, syndicate members will become more frequent contact investors and has determined that the final order. The day of pricing, the SEC will declare the registration statement will be effective, corporate and investment banking will be in consultation to determine the final price and issue size listed on the stock exchange after the market close. After pricing, the company and the underwriters will perform the underwriting agreement; accountants will issue pricing comfort letters. IPO shares's placing will be done by the investment banking after consulting firm. The placing process goal is to ensure the quality of the placing investors and making them long-term hold the stock.

### ***Printed ultimately prospectus***

After the pricing of the IPO, the lawyers will modify the final pricing of the prospectus and the information of scale then filed with the SEC. After printed the completion of the final prospectus, the underwriters will be distributed to the final prospectus investors.

## **6. 20 weeks**

### ***The closing of the transaction***

After the issuance, the securities exchanged for funds generally occur in the pricing after the fourth trading day before the market opened.

### **3. Description of functioning of IPO in U.S. Financial market**

There exist two main stock exchanges in the United States including New York Stock Exchange and NASDAQ. These two exchanges imply how companies vary in different time and what situation they face. This part will show what it happens nowadays such as latest IPO in U.S. and IPO performance. What matters is the analysis of functions of two exchanges.

#### **3.1 Description of functioning of IPO in NYSE**

NYSE has a longer history than NASDAQ and it witness the change in U.S. market. As a symbol in America, it also has an effect in markets from all over the world. Its history and functioning are the core portions to describe.

##### **3.1.1 An overview of NYSE**

The New York Stock Exchange (NYSE), sometimes known as the "Big Board", is a stock exchange located at 11 Wall Street, Lower Manhattan, New York City, New York, United States. It is the world's largest stock exchange by market capitalization of its listed companies at US\$14.242 trillion as of Dec 2011. Average daily trading value was approximately US\$153 billion in 2008.

The NYSE is operated by NYSE Euronext, which was formed by the NYSE's 2007 merger with the fully electronic stock exchange Euronext. In December 2012, it was announced that the company would be sold to Intercontinental Exchange, a futures exchange headquartered in Atlanta, Georgia, for \$8 billion, a figure that is significantly less than the \$11 billion bid for the company tendered in 2011.

### 3.1.2 History of NYSE<sup>4</sup>

The origin of the NYSE can be traced to May 17, 1792, when the Buttonwood Agreement was signed by 24 stockbrokers outside of 68 Wall Street in New York under a buttonwood tree on Wall Street. On March 8, 1817, the organization drafted a constitution and renamed itself the "New York Stock & Exchange Board." Anthony Stockholm was elected the Exchange's first president.

The last central location of the Exchange was a room, rented in 1792 for \$200 a month, located at 40 Wall Street. After that location was destroyed in the Great Fire of New York in 1835, the Exchange moved to a temporary headquarters. In 1863, the New York Stock & Exchange Board changed to its current name, the New York Stock Exchange. In 1865, the Exchange moved to 10–12 Broad Street.

The NYSE announced its plans to merge with Archipelago on April 21, 2005, in a deal intended to reorganize the NYSE as a publicly traded company. NYSE's governing board voted to merge with rival Archipelago on December 6, 2005, and become a for-profit, public company. It began trading under the name NYSE Group on March 8, 2006. A little over one year later, on April 4, 2007, the NYSE Group completed its merger with Euronext, the European combined stock market, thus forming the NYSE Euronext, the first transatlantic stock exchange.

For the second consecutive year, the NYSE raised more IPO proceeds than any other major exchange, anywhere in the world. In 2008, the NYSE raised \$26 billion in IPO proceeds, representing 21% of IPO capital raised on a global basis. Although both U.S. and global IPO activity fell sharply from last year due to challenging market conditions, NYSE Euronext raised the most IPO proceeds worldwide for the 5th consecutive year. In 2008, NYSE Euronext raised approximately \$45 billion, followed by Hong Kong which raised \$12 billion.

NYSE Euronext listed some of the largest, most recognized companies in 2008. This included the largest U.S. IPO in history, Visa (NYSE: V), which raised \$17.86 billion/€11.5 billion, and the second largest European IPO for the year, EDP Renováveis (NYSE Euronext:

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<sup>4</sup> Source: <http://baike.baidu.com/view/11098.htm?fromId=477143>

EDPR), which raised \$2.42 billion/€1.566 billion. Other significant IPOs in 2008 included American Water Works (NYSE: AWK), which raised \$1.4 billion and Intrepid Potash (NYSE: IPI), which raised \$1.1 billion. Both listed on the NYSE.

### 3.1.3 Index in NYSE

#### *NYSE Composite Index (NYS)*

*Chart 3.1 NYSE Composite Index*



Source: <http://www.nyse.com>

The NYSE Composite (NYSE: NYA) is a stock market index covering all common stock listed on the New York Stock Exchange, including American Depositary Receipts, Real Estate

Investment Trusts, tracking stocks and foreign listings. Over 2,000 stocks are covered in the index, of which over 1,600 are from United States corporations and over 360 are foreign listings; however foreign companies are very prevalent among the largest companies in the index: of the 100 companies in the index having the largest market capitalization (and thus the largest impact on the index), more than half (55) are non-U.S. Issues. This includes corporations in each of the ten industries listed in the Industry Classification Benchmark. It uses free-float market cap weighting.

### **3.1.4 NYSE Euronext**

NYSE Euronext, combined by New York Stock Exchange Group (headquartered in New York) and Euronext (headquartered in Paris), are merged to form on April 4, 2007 and listed under the ticker symbol NYX. NYSE Euronext is the world's largest and most liquid exchange group and offers the most diverse array of financial products and services for global investors and listed companies. NYSE Euronext have six cash equities trading market in five countries and have six financial derivatives market in six countries. It is a world leader in listed in the company, in cash equities, equity and interest rate derivatives, bonds and the market data. By September 30, 2007, NYSE Euronext total market capitalization has reached \$30.3 trillion / € 21.3 trillion daily turnover of about \$139 billion / €103 billion.

### **3.1.5 NYSE-listed steps**

The basic standards of the New York Stock Exchange for going public. For those foreign companies who have decided to IPO on the New York Stock Exchange can also choose to set the applicable standards exclusively for foreign companies, in addition to can be based on the applicable listing standards for U.S. companies. U.S. companies have more flexible standard than the standards of foreign companies. New York Stock Exchange listing standards include two parts: the issue size standards and financial standards.

### ***Domestic Listing Standards***

Domestic listing requirements call for minimum financial criteria and minimum distribution of a company's shares within the United States. Distribution of shares can be attained through U.S. public offerings, acquisitions made in the U.S., or by other similar means.

(a) The number of beneficial holders of stock held in "street name" will be considered, in addition to the holders of record. NYSE will perform any necessary check of such holdings that are in the name of Exchange member organizations.

(b) In connection with initial public offerings, spin-offs and carve-outs, the NYSE will accept an undertaking from the company's underwriter to ensure that the offering will meet or exceed NYSE standards.

(c) If a company has either a significant concentration of stock, or changing market forces have adversely impacted the public market value of a company that would otherwise qualify for an Exchange listing such that its public market value is no more than 10 percent below the minimum, NYSE will consider stockholders' equity of \$60 million or \$100 million, as applicable, as an alternate measure of size.

(d) Pre-tax income is adjusted for various items as defined in Section 102.01C of the NYSE Listed Company Manual.

(e) Represents net cash provided by operating activities excluding the changes in working capital or in operating assets and liabilities, as adjusted for various items as defined in Section 102.01C of the NYSE Listed Company Manual.

(f) The most recent three months of trading history in the case of Pure Valuation with Revenues will represent the Global market capitalization for already existing public companies. For all other standards, the measurement is "point in time" for existing public companies. The measurement for IPOs and carve-outs is the as-priced offering in relation to the total company's capitalization. For spin-offs, the measurement the distribution ratio as priced representing the valuation of the company.

Table 3.1 Domestic Listing Standards

<b>Distribution &amp; Size Criteria</b>	
<i>Must meet all 3 of the following:</i>	
Round-lot Holders	400 U.S.
Public Shares	1,100,000 outstanding
Market Value of Public Shares for IPOs, Spin-offs, Carve-outs, Affiliates All Other Listings	\$40 million \$100 million
<b>Stock Price Criteria</b>	
All issuers must have a \$4 stock price at the time of listing.	
<b>Financial Criteria</b>	
<i>Must meet 1 of the following standards:</i>	
<b>Alternative #1: Earnings Test</b>	
Aggregate pre-tax income for the last 3 years	\$10 million
Minimum in each of the 2 most recent years	\$2 million
Third year must be positive	
OR	
Aggregate pre-tax income for the last 3 years	\$12 million
Minimum in the most recent year	\$5 million
Minimum in the next most recent year	\$2 million
<b>Alternative #2a: Valuation with Cash Flow</b>	
Global Market Capitalization	\$500 million
Revenues ( most recent 12-month period )	\$100 million
Adjusted Cash Flow:	
Aggregate for the last 3 years	\$25 million
All 3 years must be positive	
<b>Alternative #2b: Pure Valuation with Revenues</b>	
Global Market Capitalization	\$750 million
Revenues ( most recent fiscal year )	\$75 million
<b>Alternative #3: Affiliated Company</b>	
<i>For new entities with a parent or affiliated company listed on the NYSE</i>	
Global Market Capitalization	\$500 million
Opening History	12 months
Parent or affiliate is a listed company in good standing	
Company's parent or a affiliated company retains control of the entity or is under common control with the entity	



<b>Alternative #4: Assets and Equity</b>	
Global Market Capitalization	\$150 million
Total Assets	\$75 million
Stockholders' Equity	\$50 million
<b>REITs</b>	
Stockholders' Equity	\$60 million
<b>Funds and BDCs</b>	
Net Assets	\$60 million
<b>SPACs</b>	
On a case-by-case basis, NYSE will consider listing acquisition companies with no prior operating history to conduct an initial public offering if the following criteria are met:	
Proceeds held in trust upon IPO	90%
Fair Market Value of Acquisitions	80% of net assets
Aggregate Market Value	\$250 million
Market Value of Public Shares	\$200 million

Source: <http://usequities.nyx.com/listings/list-with-nyse/domestic-listing-standards>

### ***Additional Considerations***

NYSE has broad discretion regarding the listing of a company. In addition to meeting the minimum numerical standards listed above, there are other factors which must be considered. The company must be a going concern or be the successor to a going concern. NYSE is committed to list only those companies that are suited for auction market trading and that have attained the status of being eligible for trading on NYSE. Thus, NYSE may deny listing or apply additional or more stringent criteria based on any event, condition, or circumstance that makes the listing of the company inadvisable or unwarranted in the opinion of NYSE. Such determination can be made even if the company meets the standards set forth above.

### ***Worldwide Listing Standards***

NYSE offers two sets of standards – worldwide and domestic – under which non-U.S. companies may qualify to list. Both include distribution and financial criteria. A company must meet both the distribution and financial criteria within that particular standard.

Table 3.2 Worldwide Listing Standards

CRITERIA	REQUIREMENTS	WORLDWIDE	DOMESTIC
<b>Distribution</b>	Round-Lots Holders Total Shareholders	5,000	<b>May Satisfy A,B, or C</b> A. 400 U.S. round lot shareholders B. 2,200 total shareholders and 100,000 shares monthly trading volume (most recent 6 months) C. 500 total shareholders and 1,000,000 shares monthly trading volume (most recent 12 months)
	Public Shares	2.5MM	1.1MM
	Public Market Value	\$100 MM	
	IPO's, Carve-outs & Spin-offs	N/A	\$40MM
	All other listings	N/A	\$100MM
<b>Financials</b>	<b>Earnings</b>		
	Aggregate Pre-tax Income for last 3 years	\$100MM	\$10MM
	Minimum Pre-Tax Income in each of 2 preceding years	\$25MM	\$2MM (all 3 years must be positive)
	OR		
	Aggregate Pre-tax Income for last 3 years	N/A	\$12MM
	Minimum in the Most recent year	N/A	\$5MM
	Minimum in the next most recent years	N/A	\$2MM
	<b>Valuation/Revenue Test</b> May satisfy either A or B		
	<b>A. Valuation with Cash Flow Test</b>		
	Global Market Capitalization	\$500MM	\$500MM
	Revenues (most recent 12-month Period)	\$100MM	\$100MM

	Aggregate Cash Flow	\$100MM	\$25MM
	for last 3 years		(all 3 years must be Positive)
	Minimum Cash Flow in each of 2 preceding years	\$25MM	N/A
	<b>B. Pure Valuation Test</b>		
	Global Market Capitalization	\$750MM	\$750MM
	Revenues (most recent fiscal year)	\$75MM	\$75MM
	<b>Affiliated Company</b> For new entities with a parent or affiliated company listed on NYSE		
	Global Market Capitalization	\$500MM	\$500MM
	At least 12 months of operating history	Yes	Yes
	Affiliated listed company is in good standing	Yes	Yes
	Affiliated listed company retains control of the entity	Yes	Yes

Source: <https://usequities.nyx.com/listings/list-with-nyse/worldwide-listing-standards>

### *NYSE MKT Listing Standards*

NYSE MKT has established quantitative and qualitative standards for initial listing of U.S. and foreign companies.

Table 3.3 NYSE MKT Listing Standards

CRITERIA	LISTING STANDARDS			
	Standard 1	Standard 2	Standard 3	Standard 4
<b>Pre-tax income</b>	\$750,000	N/A	N/A	N/A
<b>Market capitalization</b>	N/A	N/A	\$50 million	\$75 million <b>OR</b> At least \$75 million in total assets and \$75 million in revenues
<b>Market value of public float</b>	\$3 million	\$15 million	\$15 million	\$20 million
<b>Minimum price</b>	\$3	\$3	\$2	\$3
<b>Operating history</b>	N/A	2 years	N/A	N/A
<b>Shareholders' equity</b>	\$4 million	\$4 million	\$4 million	N/A
<b>Public shareholders/Public float(shares)</b>	Option 1: 800/500,000 Option 2: 400/1,000,000 Option 3: 400/500,000			

Source: <https://usequities.nyx.com/listings/list-with-nyse/nyse-mkt-listing-standards>

## 3.2 Description of functioning of IPO in NASDAQ

As a new market in US, NASDAQ blossom so quickly. For many companies going public successfully and develop a lot. NASDAQ begin to show its potential in US.

### 3.2.1 An overview of NASDAQ

The NASDAQ Stock Market, also known as simply the NASDAQ, is an U.S. stock market. "NASDAQ" originally stood for National Association of Securities Dealers Automated Quotations. It is the second-largest stock market comparing to official stock exchanges by market capitalization in the world, after the New York Stock Exchange. The exchange platform is owned by NASDAQ OMX Group, which also owns the OMX stock market

network.

In the U.S. stock market, the public offering is a major event followed by a sense of pride, the opportunities for business growth and significant liability. Prior to listing, the establishment and development of the company's environmental and infrastructure required to support publicly held company may well be good policy. This includes the processing company conventional internal affairs, such as the establishment of financial records, the preparation and audit of internal management review of company rules and option plans. A company should consider making and reviewing corporate communications policy, developing relations program of investor and public to retain the resources to communicate with the new principal before listing. There is also a need to develop timely annual and quarterly Securities and Exchange Commission' (SEC) filing documents and material information disclosure standards.

### **3.2.2 History of NASDAQ<sup>5</sup>**

NASDAQ was founded in 1971 by the National Association of Securities Dealers (NASD), who divested themselves of it in a series of sales in 2000 and 2001. It is owned and operated by the NASDAQ OMX Group, the stock of which was listed on its own stock exchange beginning July 2, 2002, under the ticker symbol NASDAQ: NDAQ. It is regulated by the Financial Industry Regulatory Authority (FINRA), the successor to the NASD.

NASDAQ was the successor to the over-the-counter (OTC) system of trading. As late as 1987, the NASDAQ exchange was still commonly referred to as the OTC in media and also in the monthly Stock Guides issued by Standard & Poor's Corporation.

Over the years, NASDAQ became more of a stock market by adding trade and volume reporting and automated trading systems. NASDAQ was also the first stock market in the United States to start trading online. Nobody before them had ever done this, highlighting NASDAQ-traded companies (usually in technology) and closing with the declaration that NASDAQ is "the stock market for the next hundred years." Its main index is the NASDAQ

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<sup>5</sup> Source: <http://baike.baidu.com/view/6240.htm?fromId=23912>

Composite, which has been published since its inception. However, its exchange-traded fund tracks the large-cap NASDAQ-100 index, which was introduced in 1985 alongside the NASDAQ 100 Financial Index.

Until 1987, most trading occurred via the telephone, but during the October 1987 stock market crash, market makers often didn't answer their phones. To counteract this, the Small Order Execution System (SOES) was established, which provides an electronic method for dealers to enter their trades. NASDAQ requires market makers to honor trades over SOES.

In 1992, it joined with the London Stock Exchange to form the first intercontinental linkage of securities markets. NASD spun off NASDAQ in 2000 to form a publicly traded company, the NASDAQ Stock Market, Inc.

In 2006 NASDAQ changed from stock market to licensed national exchange.

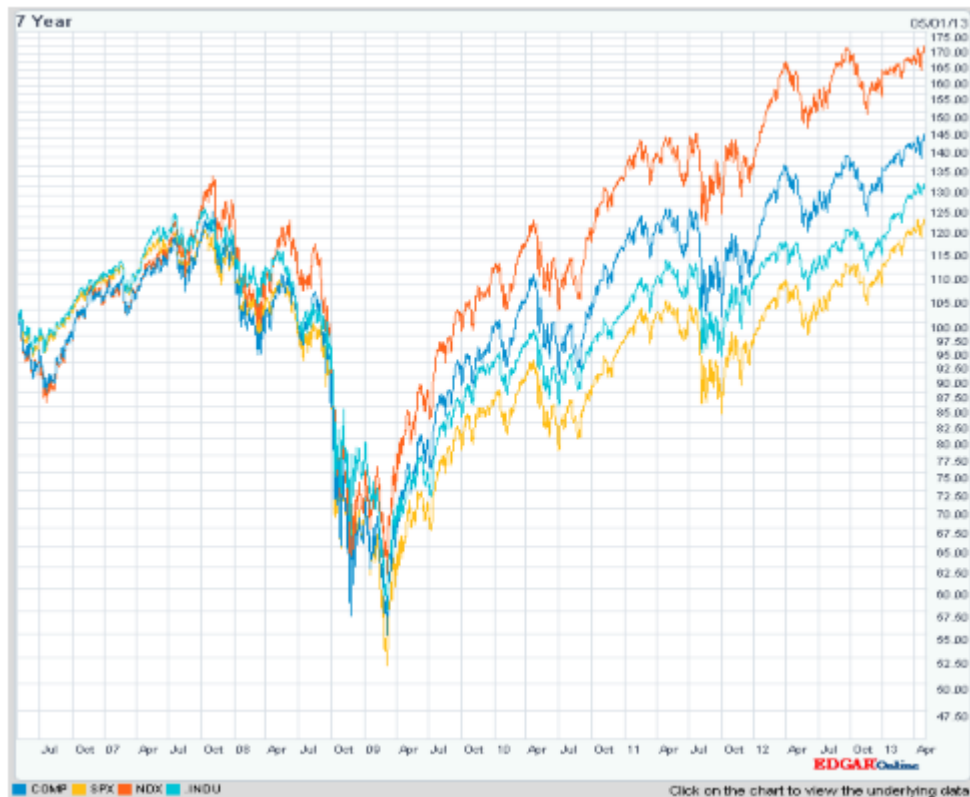
On November 8, 2007, NASDAQ bought the Philadelphia Stock Exchange (PHLX) for US\$652 million. PHLX is the oldest stock exchange in America—having been in operation since 1790.

In February 2011, in the wake of an announced merger of NYSE Euronext with Deutsche Börse, speculation developed that NASDAQ and Intercontinental Exchange (ICE) could mount a counter-bid of their own for NYSE. NASDAQ could be looking to acquire the American exchange's cash equities business, ICE the derivatives business. As of the time of the speculation, "NYSE Euronext's market value was \$9.75 billion. NASDAQ was valued at \$5.78 billion, while ICE was valued at \$9.45 billion." Late in the month, NASDAQ was reported to be considering asking either ICE or the Chicago Merc to join in what would probably have to be, if it proceeded, an \$11–12 billion counterbid.

In 2013, NASDAQ was approached by private equity firm Carlyle Group about taking the exchange operator private, but the talks fell apart over a disagreement on price.

### 3.2.3 Index in NASDAQ

*Chart 3.2 NASDAQ Composite Index*



Source: <http://www.NASDAQ.com>

The NASDAQ Composite is a stock market index of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market, meaning that it has over 3,000 components. It is highly followed in the U.S. as an indicator of the performance of stocks of technology companies and growth companies. Since both U.S. and non-U.S. companies are listed on the NASDAQ stock market, the index is not exclusively a U.S. Index. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market.

### **3.2.4 NASDAQ OMX Group<sup>SM</sup>**

NASDAQ OMX Group<sup>SM</sup> is the world's most extensive and diversified trading company. It delivers trading, exchange technology and public company services across six continents and ranks first among the world's major stock markets in 3900 over the company's performance.

The NASDAQ OMX<sup>SM</sup> offers a variety of financing solutions for the global scope of the company including its U.S. listings market, NASDAQ Stock Market, OMX Nordic Exchange (including First North) and the 144A PORTAL Market. The company offers trading across multiple asset classes including equities, derivatives products, debt, commodities, structured products and exchange-traded funds. NASDAQ OMX technology supports more than 50 countries, more than 60 exchanges, clearing organizations and central securities depositories' operating. OMX Nordic Exchange is not a legal entity but the common offering from NASDAQ OMX stock exchanges in Helsinki, Copenhagen, Stockholm, Iceland, Tallinn, Riga, and Vilnius.

The NASDAQ Stock Market namely the market of NASDAQ OMX listed companies have over 3100 companies listed. It concentrated leaders of enterprises, including technology, retail, communications, financial services, transportation, media, biotechnology and other business areas. The past five years, the NASDAQ (NASDAQ) attracted more IPO than any other U.S. exchange. Transactions are through the execution of a complex computer and telecommunications networks, this network system provide timely critical transaction information for investors. More than 300 market makers sponsor NASDAQ and trading of NASDAQ stocks. NASDAQ Global Select<sup>SM</sup> NASDAQ Global Market has average of 20 market makers and more than one hundred markets do some securities. That are unmatched by any other U.S. market. NASDAQ Select Market Maker Program<sup>SM</sup> make listed companies view the market maker's role in its stock exchange better and interact with the listed companies better. NASDAQ Select Market Maker Program create an extraordinary standard of measurement to help listed companies, traders, institutional investors and individual investors.



### 3.2.5 NASDAQ-listed steps<sup>6</sup>

#### *Listed on the NASDAQ Stock Market - Overview*

The mission of the NASDAQ OMX stock market is through providing the highest quality in the world for the company, market participants and investors to promote growth and enhance the entrepreneurial spirit. This is a fast, reliable, highly transparent and highly liquid market; a market with quality trading efficiency; a market with the highest standards of regulatory compliance and corporate governance.

The company must meet certain initial quantitative and qualitative requirements when the securities to be listed on the NASDAQ Stock Market and submit a form. These requirements are listed in the table at the end of this chapter, and other contents of the table there on the securities on the NASDAQ Global Select Market, the NASDAQ Global Market or The NASDAQ Capital Market) initial listing the basic steps of the application process.

#### *Listing standards*

When selecting its stock on the NASDAQ-listed company, it must meet the initial and continued listing of the financial aspects of the minimum requirements. These requirements are designed to facilitate the financing of the company worldwide, while protecting the investment in these companies and potential investors. NASDAQ quantitative listing requirements are generally higher than the continued listing requirements listed for the first time starting point to help ensure that the company has reached a sufficient level of maturity in the market before. NASDAQ requires listed companies to meet the exacting standards of corporate governance and NASDAQ should comply these standards. NASDAQ listing standards for companies and investors alike transparent and demand the implementation. Apply for listing forms and instructions can be found online at the following URL: [www.NASDAQOMX.com](http://www.NASDAQOMX.com)

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<sup>6</sup> Source: <http://wenku.baidu.com/view/5529a82c453610661ed9f40b.html>

## ***NASDAQ Global Select Market***

*Table 3.4 Liquidity Requirements*

<b>NASDAQ Global Select Market Initial Listing Requirements</b>				
<b>New Company Listings</b>				
<b>Requirements</b>	<b>Initial Public Offerings and Spin-Off Companies</b>	<b>Seasoned Companies: Currently Trading Common Stock or Equivalents</b>	<b>Affiliated Companies</b>	<b>Listing Rules</b>
Round lot shareholders <b>or</b> Total shareholders <b>or</b> Total shareholders And Average monthly trading volume over past twelve months	450 <b>or</b> 2,200	450 <b>or</b> 2,200 <b>or</b> 550 and 1.1 million	450 <b>or</b> 2,200 <b>or</b> 550 and 1.1 million	5315(f)(1)
Publicly held shares	1,250,000	1,250,000	1,250,000	5315(e)(2)
Market value of publicly held shares <b>or</b> Market value of publicly held shares and Stockholders' equity	\$45 million	\$110 million <b>or</b> \$100 million and \$110 million	\$45 million	5315(f)(2)

Source: NASDAQ Listing Standard and Fees 2011

Listed on the NASDAQ Global Select Market is a a qualified company sign of success. It represents a commitment to provide investors with a high-quality market quality. The investor benefits not only from the NASDAQ lower and lower transaction costs, but also about the NASDAQ Global Select Market companies the Exemplary Leadership enterprises which meets the highest standards of any market in the world. The company must meet at least one of the three financial standards and the liquidity requirements of the applicable provisions of all the requirements.

Table 3.5 Financial and qualitative requirements

NASDAQ Global Select Market Initial Listing Requirements				
Requirements	Standard 1 Listing Rules 5315(e) and 5315(f)(3)(A)	Standard 2 Listing Rules 5315(e) and 5315(f)(3)(B)	Standard 3 Listing Rules 5315(e) and 5315(f)(3)(C)	Standard 4 Listing Rules 5315(e) and 5315(f)(3)(D)
Pre-tax earnings (income from continuing operations before income taxes)	Aggregate in prior three fiscal years $\geq$ \$11 million and Each of the two most recent fiscal years $\geq$ \$2.2 million and Each of the prior three fiscal years $\geq$ \$0	N/A	N/A	N/A
Cash flows	N/A	Aggregate in prior three fiscal years $\geq$ \$27.5 million and Each of the prior three fiscal years $\geq$ \$0	N/A	N/A
Market Capitalization	N/A	Average $\geq$ \$550 million over prior 12 months	Average $\geq$ \$850 million over prior 12 months	\$160 million
Revenue	N/A	Previous fiscal year $\geq$ \$110 million	Previous fiscal year $\geq$ \$90 million	N/A
Total assets	N/A	N/A	N/A	\$80 million
Stockholders' Equity	N/A	N/A	N/A	\$55 million
Bid price	\$4	\$4	\$4	\$4
Market makers	3 or 4	3 or 4	3 or 4	3 or 4
Corporate Governance	Yes	Yes	Yes	Yes

Source: NASDAQ Listing Standard and Fees 2011

### ***NASDAQ Capital Market***

The company must meet the minimum financial requirements for initial listing on the NASDAQ Capital Market, you must continue to meet the standards if maintaining the listing requirements of the NASDAQ Capital Market.

*Table 3.6 Financial Standards*

<b>NASDAQ Capital Market Initial Listing Requirements</b>			
<b>Requirements</b>	<b>Equity Standard Listing Rules 5505(a) and 5505(b)(1)</b>	<b>Market Value of Listed Securities Standard Listing Rules 5505(a) and 5505(b)(1)</b>	<b>Net Income Standard Listing Rules 5505(a) and 5505(b)(1)</b>
Stockholders' equity	\$5 million	\$4 million	\$4 million
Market value of publicly held shares	\$15 million	\$15 million	\$5 million
Operating history	2 years	N/A	N/A
Market value of listed securities	N/A	\$50 million	N/A
Net income from continuing operations (in the latest fiscal year or in two of the last three fiscal years)	N/A	N/A	\$750,000
Bid price	\$4	\$4	\$4
Shareholders (round lot holders)	1 million	1 million	1 million
Market makers	3	3	3
Corporate governance	Yes	Yes	Yes

Source: NASDAQ Listing Standard and Fees 2011

### ***NASDAQ Global Market***

Selecting the company must meet minimum financial requirements for initial and continued listing of its securities listed on the NASDAQ Stock Market. The company must meet all the requirements for initial listing on the NASDAQ Global Market at least one of the three financial standards set forth. To keep listing, you must continue to meet at least one of the continued listing standards.

Table 3.6 Financial Standards

NASDAQ Global Market Initial Listing Requirements				
Requirements	Income Standard Listing Rules 5405(a) and 5405(b)(1)	Equity Standard Listing Rules 5405(a) and 5405(b)(2)	Market Value Standard Listing Rules 5405(a) and 5405(b)(3)	Total Assets/Total Revenue Standard Listing Rules 5405(a) and 5405(b)(4)
Income from continuing operations before income taxes (in latest fiscal year <b>or</b> in two of last three fiscal years)	\$1 million	N/A	N/A	N/A
Stockholders' equity	\$15 million	\$30 million	N/A	N/A
Market value of listed securities	N/A	N/A	\$75 million	N/A
Total assets and Total revenue (in latest fiscal years <b>or</b> in two of last three fiscal years)	N/A	N/A	N/A	\$75 million and \$75 million
Publicly held shares	1.1 million	1.1 million	1.1 million	1.1 million
Market value of publicly held shares	\$8 million	\$18 million	\$20 million	\$20 million
Bid price	\$4	\$4	\$4	\$4
Shareholders (round lot holders)	400	400	400	400
Market makers	3	3	4	4
Operating history	N/A	2 years	N/A	N/A
Corporate governance	Yes	Yes	Yes	Yes

Source: NASDAQ listing standard and fees 2011

### ***Alternative funding***

#### ***The PORTAL Alliance***

The PORTAL Alliance<sup>SM</sup> is currently under development by NASDAQ and a number of financial institutions, for a private placement of equity securities transactions and transfer system. SEC Rule 144A allows qualified institutional buyers (management of at least one hundred million U.S. dollars of securities institutions) between immediate resale the private securities not listed on the registration. This way can effective access to lower cost than traditional U.S. public offering. Companies from around the world have been using the Rule 144A financing and improve the status of institutional investors in the United States, these institutional investors including banks, savings and loan institutions, insurance companies, investment companies and employee benefit plans. Company with private capital in the develop the business, assessing options, get experience and develop more accurate pricing with time and flexibility, all are conducive to more effective IPO.

### **3.3 Latest IPO in US**

From the table 3.7, it shows that there exist many IPOs in NYSE and NASDAQ every week. Some of them have relatively lower price and shares than others. And the amount of IPOs are also large especially for some big companies. The price of every company varies from class and also does shares. In every period, there are some worst and best IPOs Performance in these two stock exchanges.

*Table 3.7 Latest IPO in US*

<b>Recently Priced IPOs ( IPOs Priced in March 2013)</b>						
<b>Company Name</b>	<b>Symbol</b>	<b>Market</b>	<b>Price</b>	<b>Shares</b>	<b>Offer Amount</b>	<b>Date Priced</b>
TETRAPHASE PHARMACEUTICALS INC	TTPH	Nasdaq National Market	\$7	10,714,286	\$75,000,002	3/12
SILVER SPRING NETWORKS INC	SSNI	New York Stock Exchange	\$17	4,750,000	\$80,750,000	3/13
ARTISAN PARTNERS ASSET MANAGEMENT INC.	APAM	New York Stock Exchange	\$30	11,054,156	\$331,624,680	3/7
HYPERION THERAPEUTICS INC	HPTX	Nasdaq National Market	\$19.37	2,600,000	\$50,362,000	3/6
PROFESSIONAL DIVERSITY NETWORK INC.	IPDN	Nasdaq National Market	\$8	2,625,000	\$21,000,000	3/5

Source: <http://www.NASDAQ.com>

## **4.Comparison of the Selected IPO**

In this part, there are two companies from NYSE and NASDAQ will be introduced through their development and IPO processes.

### **4.1 Analysis of Qihoo IPO**

The analysis of Qihoo is divided into three parts, including the description of the company, process of IPO and capital market indicators.

#### **4.1.1 Company Description**

Qihoo 360 Technology Co Ltd (Qihoo 360), formerly Qihoo Technology Company Limited, is engaged in the operations of Internet services and sales of third party anti-virus software in the People's Republic of China. It provides Internet and mobile security products in China. In January 2011, the Company had 328 million monthly active Internet security product users, representing a user penetration rate of 83.9% in China. Its Internet and mobile security products include 360 Safe Guard and 360 Anti-virus, the Internet security products in China, with 301 million and 248 million monthly active users in January 2011, and 360 Mobile Safe, the mobile security product in China. The Company generates revenues primarily through offering the services, such as online advertising and Internet value-added services. Online advertising offers advertising services by providing marketing opportunities on its Websites and secure platform products to its advertising customers.<sup>7</sup>

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<sup>7</sup> Source: <http://www.nyse.com/about/listed/lcddata.html?ticker=QIHU>



## 4.1.2 Process of IPO

*Table 4.1 Shareholding structure of Qihoo*

Qihoo Pre-IPO Share Allocations ( for members of the board of directors and executives )		
Name	Shares	Percentage
Zhou Hongyi	32,228,158	21.50%
Qi Xiangdong	18,633,343	12.43%
Cao Shu	12,228,250	8.16%
Shen Nanpeng	14,202,219	9.48%
Wang Gongquan	10,572,556	7.05%
Hong Chuan Thor	*	*
Ming Huang	—	—
Shujun Li	7,831,467	5.23%
William Mark Evans	—	—
Alex Zuoli Xu		
Jue Yao	*	*
Shi Xiaohong	6,550,654	4.37%
Qihoo Pre-IPO Share Allocation ( for main shareholders )		
Young Vision Group Limited	18,633,343	12.43%
Global Village Associates Limited	32,228,158	21.50%
Highland Capital Partners VI Limited Partnership and its affiliates	26,515,152	17.69%
Sequoia Capital China	14,202,219	9.48%
Sino Honor Limited	11,826,000	7.89%
CDH Network Technology	10,572,556	7.05%
Trustbridge Partners III, L.P. And its affiliate	7,831,467	5.23%
Redpoint Ventures III, L.P. And its affiliate	7,575,758	5.05%

Source: <http://wenku.baidu.com/view/8caa7782bceb19e8b8f6ba85.html>

The first round of VC financing was in March 2006, in angel investors Zhou Hongyi's leading, Sequoia, CDH, IDG and Zhou Hongyi joint invested in Qihoo for \$20 million. Subsequently, in June 2006, Matrix Partners added additional investment for Qihoo. In November 2006, Qihoo completed B round of financing of \$25 million invested by Highland Capital who is lead investor and joined by red dot. Red Cedar, CDH, Matrix and IDGVC of A round of investors also involved in the second round of financing. In January 2010, Qihoo

completed a \$20 million financing of C round, the lead investor of a third round of financing was by the United States veteran fund of Trustbridge of Partners (TB). Prior to the IPO, we can find information from the table of the shareholding structure of the Qihoo.

On March 16, 2011, Qihoo submitted its initial public offering (IPO) prospectus to the U.S. Securities and Exchange Commission (SEC). According to the SEC announced in formal terms, Qihoo planned to issue 1210 million American depositary shares (ADS), every two ADSs represent three of their Class A ordinary shares., which is expected to issue guidance range of \$10.50-12.50; at the same time, the company also granted the underwriters an copies of ADS Over-allotment Option of about 182 million. To raise funds for research development and acquisition of technologies, products and businesses

The Qihoo choose that time to be listed can be the first to gain an advantage. If listing before other security vendors, Qihoo can attract capital priority and pose a threat to other competitors. UBS Investment Bank and Citibank will act as underwriters of the IPO, the IPO size is expected to reach 200 million U.S. dollars, UBS may act as global coordinator and lead underwriter of the main issue. Total revenues of Qihoo was \$57.7 million in 2010, an increase of 78.5% over the previous year; 2008-2009, this figure nearly doubled. Qihoo in 2009 achieved profitability. By December 31, 2010, its net profit was \$8.5 million, more than doubled over the previous year. In 2010, Qihoo's net earnings per share was 5 cents. And in 2009 it was 3 cents. The loss was 7 cents per share in 2008. Its operating performance has reached the standards of the New York Stock Exchange. In accordance with the recommendations of the investment bank, Qihoo taking into account the long history of the New York Stock Exchange, large-scale transaction is conducive to enhance the company's brand, combined with Youku, Dangdang listed in the New York Stock Exchange, Qihoo selected listed on the NYSE. At first, the issue price was set at \$10.50-12.50, but the industry generally believe that the price was low and first roadshow proved this point. On March 17, Qihoo launched global road show in Hong Kong. On the first day, Qihoo was oversubscribed more than three times than before. When roadshow in Hong Kong, investors subscribed enthusiastically and Soros's a fund participated in the subscription. According to investor who is a foreign financial media, another giant Buffett also invested Qihoo. Qihoo will become the

sixth stock invested commonly by Soros and Buffet. Qihoo's final pricing was in most high-end of price range between \$13.50 and \$14.50, which is equivalent to 74 times than 2011 forecast earnings pre. The strong demand of the investors for the company's shares lead to pricing beyond the initial price range of \$10.50-12.50, bookkeeping end one day in advance. Qihoo IPO in NYSE got a total of 40 times over-subscribed, it was one of the most successful companies in the U.S. IPO transactions in mainland China this year. Zhou Hongyi pointed out that it was this innovation so that investors are optimistic about the potential of Qihoo, the entire IPO process was very smooth, and realized over-subscription. Qihoo listed on the NYSE in the U.S. on the first day to close at \$34.00, opened at \$27, going up \$19.5 which are compared with \$14.50 offering price, rising 134.45 percent and its market capitalization was \$3.956 billion. Click here to prices, investment funds in five years got ten times return. CDH Venture Capital Fund invested \$5,000,000 in Qihoo in 2006, in terms of price in the day to recover the cost of \$200 million, a return of 40 times; Sequoia Capital in 2006 invested \$6 million to Qihoo and second round of investment capital injection of \$1,000,000 in 2006 November. Sequoia 8.5% stake, valued at \$505 million and \$7 million investment in five years got Sequoia 72-fold return and maximize profits of \$498 million.

### **4.1.3 Capital market indicators**

#### ***Development of Price***

The chart 4.1 shows the development of price about Qihoo stock from beginning to now. We can find that the price has been changed. In the middle of the mountain, it reaches the low ebb many times. Its shape likes a W, at the beginning and now its price are high than any other time. It shows that company fell into bad situation after IPO and after one year it got better. However, Qihoo adjusted quickly and grew up in one year. Especially, it is easy to find that nowadays its price realize the highest point. Maybe their great implement has been proved to be effective. And the volume of shares achieved the highest in last year and at the beginning it was relatively higher than other time. In most time, its volume were in the level of 1000 million shares.

Chart 4.1 Price Development of Qihoo



Source: <http://q.stock.sohu.com/us/QIHU/index.shtml>

### Financial Data Overview<sup>8</sup>

Table 4.2 Financial Data Overview

Market cap ( B )	3.988
P/E Ratio	83.59
EPS	0.41
Beta coefficient	0.00

1) A stock's market-capitalization (CAP) figure is calculated by multiplying the number of shares outstanding (SHO) for that issue by its last trade price. Because the SHO figure represents the number of shares outstanding for a single issue - meaning multiple classes of a company's stock are not combined - the CAP value also represents a single issue, and does not always reflect a company's total market capitalization. Qihoo has a market cap of 3.998 billion, which shows that it is in the middle level of the market.

2) Price/Earnings Ratio is a widely used stock evaluation measure. For a security, the Price/Earnings Ratio is given by dividing the Last Sale Price by the Average EPS (Earnings Per Share) Estimate for the specified fiscal time. From the data of P/E Ratio, it presents a

<sup>8</sup> Statistics are collected from <http://stock.finance.sina.com.cn/usstock/quotes/QIHU.html>

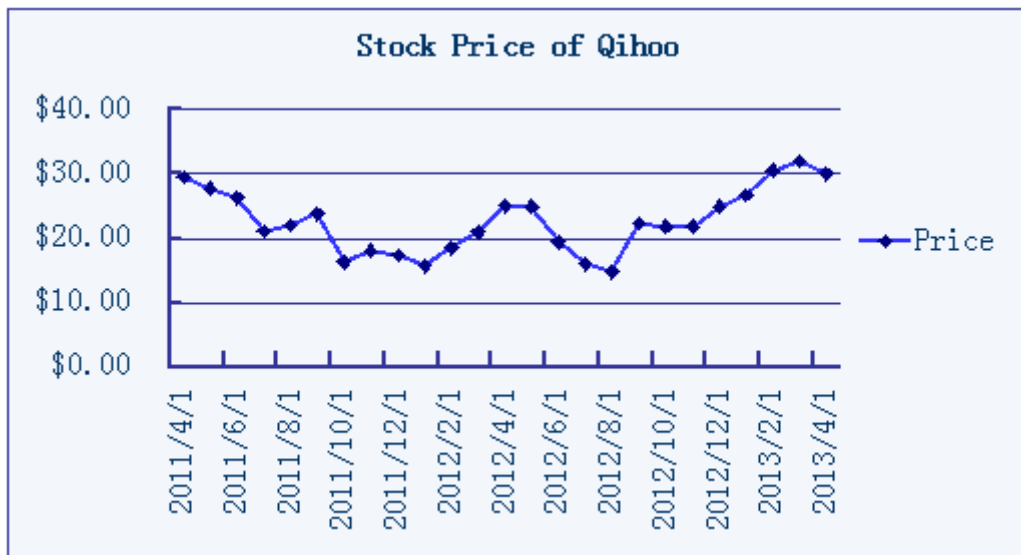
good performance in price of Qihoo. It can realize high profit.

3) Earnings Per Share (EPS) represents the portion of a firm's profit allocated to each share of outstanding common stock during that period. The number of EPS is relatively low in the whole market which reflect the low earnings per share.

4) Beta is a statistical coefficient that gives a measure of a stock's price volatility relative to the market. An issue's beta value compares its rate of return to fluctuations in the market as a whole. Formula:  $\text{Beta} = (\text{Covariance with the market returns} / \text{Variance of the market returns})$ . Qihoo's beta coefficient is 0.00 which represents that Qihoo's price kept up with the market.

### ***Average Yield and Volatility***

*Chart 4.2 Stock Price of Qihoo*



Source: <http://www.NYSE.com>

From chart 4.2, we can find that stock prices of Qihoo are almost between \$20 and \$30 in two years. Because the price range is small, so the floatability the price is not so big. After calculation, the results are that average monthly yield is 1.4% and monthly volatility is 16.6%. The number of 1.4% is not a big yield and stock price of Qihoo were low at that time, so base is small. The monthly volatility of 16.6% is big. Compared with monthly data, yearly data is nearly one percent higher. Because time range is increased, then the possibility of change is bigger. On the whole, they keep relatively stable.

## **4.2 Analysis of Baidu IPO**

The structure analysis of Baidu will be as same as Qihoo.

### **4.2.1 Company description**

Baidu was incorporated in the Cayman Islands in January 2000. Since its inception, they have conducted our operations in China principally through Baidu Online, their wholly owned subsidiary in Beijing, China. Since June 2001, they also have conducted part of our operations in China through Baidu Netcom, a consolidated affiliated entity in Beijing, China, which holds the licenses and approvals necessary to operate their websites and provide online advertising services. In more recent years, they have established additional subsidiaries inside and outside of China and assisted in establishing additional PRC consolidated affiliated entities to conduct part of their operations.

They are the leading Chinese language internet search provider. As a technology-based media company, they aim to provide the best way for people to find information. In addition to serving users, they provide an effective platform for businesses to reach potential customers.

Their Baidu.com website was the largest website in China and the fifth largest website globally, as measured by average daily visitors and page views during the three-month period ended December 31, 2012, according to Alexa.com, an internet analytics firm. They believe they captured the largest internet search traffic in China in 2012. Their “Baidu” brand received the highest ranking for an internet brand in China in BrandZ Top 50 Most Valuable Chinese Brands 2012, a study of the top 50 most valuable Chinese brands published by Millward Brown Optimor, a brand strategy research firm.

### **4.2.2 Process of IPO**

Roadshow in the United States for the first time in the end of July, Baidu is doing well. In the morning, there were 94 fund managers, the noon luncheon hit a record and it increased to

140, the original ballroom seats were not enough. After the speech, there were still many fund managers heard the news and then came one after another, but because of the tight seating, some management of billions of dollars of fund managers had to sit against the wall, and with an empty stomach to listen to Li's speech. According to Baidu previously prospectus released in mid-July, Baidu's prospectus issued approximately 370 inhabitants of American Depositary Receipts (260 million shares of newly, 110 million shares for the old shareholders to sell), price was \$19 per share to \$21, raising funds was about \$75 million.

Baidu entire listing process was accompanied by constant price revaluation, which were both of revaluation of investors for Baidu and Baidu continually self-revaluation. On July 13, Baidu submitted prospectus to NASDAQ, the company planned to issue Class A common shares worth \$75 million through the IPO. According to initial public prospectus of Baidu, the company will be available for sale on behalf of the Class A common shares of American Depositary Shares (ADS). Per American Depositary Share of Baidu is equivalent to ordinary shares. But then, Baidu had not been determined.

Li Yanhong's first stop of roadshow was in Hong Kong, before his formal public pricing he negotiated with underwriters. "We told the underwriters that we still feel dissatisfied with pricing of \$17-19. Later, they explained the pricing model which was really low. Later under our pressure, it swiftd down into \$ 19-21, so Baidu listed first public price is \$19-21. In the entire process of roadshow, investors were very interested; therefore we made an adjustment to the latter part of the time. "Li Yanhong said. Li Yanhong began to re-estimate the value of Baidu because of the roadshow. In the first day of the roadshow, about 120 people attended the forum. Since then, Li Yanhong and his entourage went to Singapore, London and New York. Baidu roadshow in New York was in the largest scale. And later they went to San Diego, San Francisco, Los Angeles, Chicago, Denver, Boston, Baltimore, Mount and then returned to New York, which lasted more than two weeks. The roadshow schedule was very short, Li Yanhong rented a small charter and continued to walk through between the eastern and western of United States for the sake of grabbing more time to meet more investors. On Tuesday, August 2, after a series of meetings with investors, Li Yanhong and underwriters have felt the strong demand. On August 3, the data released by the NASDAQ Web site

showed that Baidu would be listed on August 5 in the United States and raised \$88 million. On August 4, which was the last day of Baidu roadshow and the final pricing is around 6 pm. Li Yanhong, who just came back from New York, with Zhansheng and a principal member of the board of directors, they will ultimately determine the issue price at \$27 after more than two hours of discussion.

At 10 pm of August 5, 2005 (New York time), personnel who participated in Baidu listed led by Li Yanhong into the office of New York Building, Goldman Sachs to wait for witnessing Baidu being listed and the historical moment of the first transaction. About 11:35, the first transaction was completed, the share price rose to \$72, growing up by 200%. At 14:40 pm, the stock exceeded \$100.

Baidu listed breaks the Wall Street rule of Chinese Discount. It not only set a price record of Chinese companies on the NASDAQ, but also hit the U.S. stock market in past five years (since the network technology stocks bubble burst) and highest gain of first-day of the newly listed companies, which became one of the ten highest yielding stock on the date of listing in the history.

In the day of listing, Baidu issued 3,210,000 pieces of American Depositary Shares and 830,000 American Depositary Shares sold by existing shareholders, in addition Baidu and existing shareholders granted the underwriters 480,000 and 80,000 options which can be additional purchased when cover over-allotments in 30 days. It was known that the issue of these shares because of about 11% shares of Baidu. The subscription demand was too strong, resulting in that Baidu's underwriters had to take the limit placing which ruled everyone's subscription amount can not exceed 10% of the circulation. The net worth of hundreds of millions of funds they can only subscribe for a small number of shares. In fact, the feedback showed that subscription amount had more than a few times of the circulation from institution. And a large number of retail demand can not be estimated, they were forced into the secondary market for the subscription, namely came into being the high frequency of changed hands of more than 22 million shares but only issued 4,040,000 shares.



### ***Issue overall of Baidu listed stocks***

*Table 4.3 Issue Overall of Baidu Listed Stocks*

Item	Content
Price Range of Stock	\$ 27
Issuance Volume of Stock	4,040,402 ADSs
Offering Fund	\$109,090,854
ADS Sold by Baidu Company	3,208,696 ADSs
ADS Sold by Selling Shareholders	831,706 ADSs
Volume of Class A Common Shares after IPO	4,344,877
Volume of Class B Common Shares before IPO	27,973,716
Exchange Rate of ADS to Class A Common Shares	ADS per share equals to one share of Class A Common Share
Distribution Methods of Shares Structure of Different Voting Power	Class A of public offering, one vote per share; Class B of Baidu shareholders, ten vote per share

Source: <http://wenku.baidu.com/view/cc97bd4be518964bcf847c79.html>

On August 5, 2005, Baidu was listed on NASDAQ and IPO issued 4,040,402 shares ADS which Baidu will be available for sale 3,208,696 shares of ADS and selling shareholders will sell 831,706 shares ADS. The per share price was \$27, raised funds of approximately \$75 million. At the same time, Baidu took issue method of different voting shares structure. Baidu is the first Chinese company who took this way to be listed on the NASDAQ.

### ***Shares Allocation of Main shareholders and Selling Shareholders of Baidu***

Analyzing the offered shares of the shareholders of Baidu, we can find that it punished the bovine card program to prevent hostile takeover after listing. Li Yanhong, Baidu CEO, held 22.9% shares adding other executives holding shares, the number of shares will reach 43%. However, the volume of shares of investment institutions and individual shareholding was up to 57%. Due to the holders of class B common stock have 10 voting rights per share, Baidu executives only have 11% shares can be avoided hostile takeover. Li Yanhong and his management team had 43% shares after the listing shares, which will keep Baidu's absolute control and making Baidu have a space for independent development. Former Baidu executives provided a total 1.3% shares for public offering, Li Yanhong offered 0.9% shares

and other executives were not to sell their stock. In original large institution, Draper Fisher Jurvetson ePlanet Ventures LP who had hold largest volume of shares chose not to sell their shares. And the other shareholders also made a small amount of shares for public offering to keep holding a large number of shares of Baidu after the listing. For other investment institutions, they also took a small number of shares for public release. We think that substantial majority of shareholders chose not to sell the shares in order to reap greater benefits, because situation of Baidu stock was generally good and had great potential in rising of stock prices after the listing.

Table 4.4 Shares Allocation

Shareholders	Pre-IPO		Selling Shares		Post-IPO	
	Shares	Percentage	Selling Shares	Percentage	Shares	Percentage
Satraps and Executive Officers						
Li Yanhong	7,520,000	25.8%	250,000	0.9%	7,270,000	22.4%
Walcheck	3,202,399	11.0%	108,092	0.4%	3,094,307	9.6%
Penner	2,953,403	10.1%	Not for Sale	Not for Sale	2,953,403	9.1%
Liu Jianguo	328,000	1.1%	30,000	0.1%	298,000	0.9%
Wang zhansheng	322,488	1.1%	Not for Sale	Not for Sale	322,488	1.0%
Zhu Hongbo	310,000	1.0%	Not for Sale	Not for Sale	310,000	1.0%
Liang Dong	120,000	0.4%	Not for Sale	Not for Sale	120,000	0.4%
Main Shareholders						
Draper Fisher	8,186,591	28.1%	Not for Sale	Not for Sale	8,186,591	25.3%
Integrity Partners	3,202,399	11.0%	108,092	0.4%	3,094,307	9.6%
Peninsula Capital	2,953,403	10.1%	Not for Sale	Not for Sale	2,953,403	9.1%
Xu Yong	2,380,000	8.2%	160,000	0.5%	2,220,000	6.9%
Selling shareholders						
IDG Technology Venture Investment	1,440,000	4.9%	100,000	0.3%	1,340,000	4.1%
CMT CV-BD Limited	164,918	0.6%	164,918	0.6%	No longer holding	Without
Ming Lei	94,166	0.3%	10,000	0.03%	84,166	0.3%
William Chang	40,000	0.1%	8,696	0.03%	31,304	0.1%

Source: <http://www.iResearch.com>

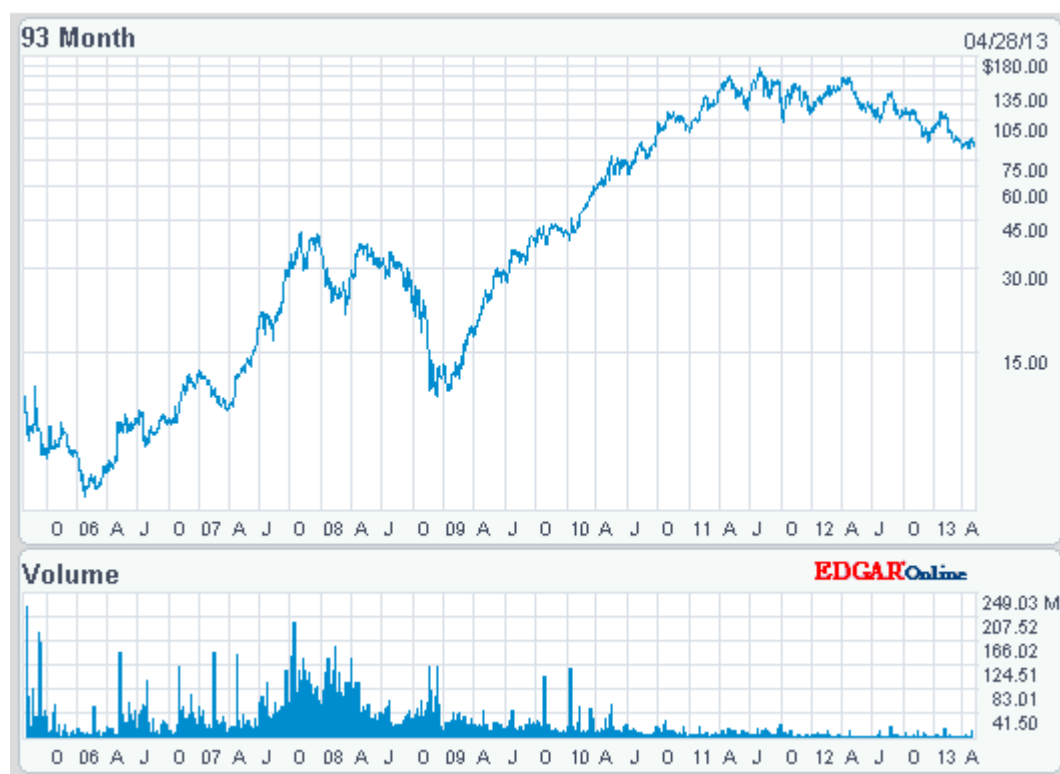
## 4.2.3 Capital market indicators

### *Development of Price*

The chart 4.3 shows the development of price about Baidu stock from beginning to now. We can find that the price has a trend to grow down with fluctuation. It shows that Baidu realize more and more profit after IPO and it will continue to make good outstanding achievement in the future. And the volume of shares is large between 2008 to 2009 and then it gradually becomes small now. Even in Financial Crisis, its trading volume was still in high

level which proves that Baidu wasn't influence by this factor. We can also find the regularity that price changes reverse to volume of shares in Baidu.

*Chart 4.3 Price Development of Baidu*



Source: <http://www.NASDAQ.com>

### ***Financial Data Overview<sup>9</sup>***

*Table 4.5 Financial Data Overview*

Market cap ( B )	29.975
P/E Ratio	19.25
EPS	4.46
Beta coefficient	1.73

1) Baidu has a market cap of \$29.975 billion, it is a very high value compared with Qihoo. Not only because of Baidu' s long history, but also its portion of market. It is very popular with people in China. Now compared with Google, Baidu has defeated it completely.

2) From the data of P/E Ratio, it presents a good performance in price of Baidu. It can

<sup>9</sup> Statistics are collected from <http://stock.finance.sina.com.cn/usstock/quotes/BIDU.html>

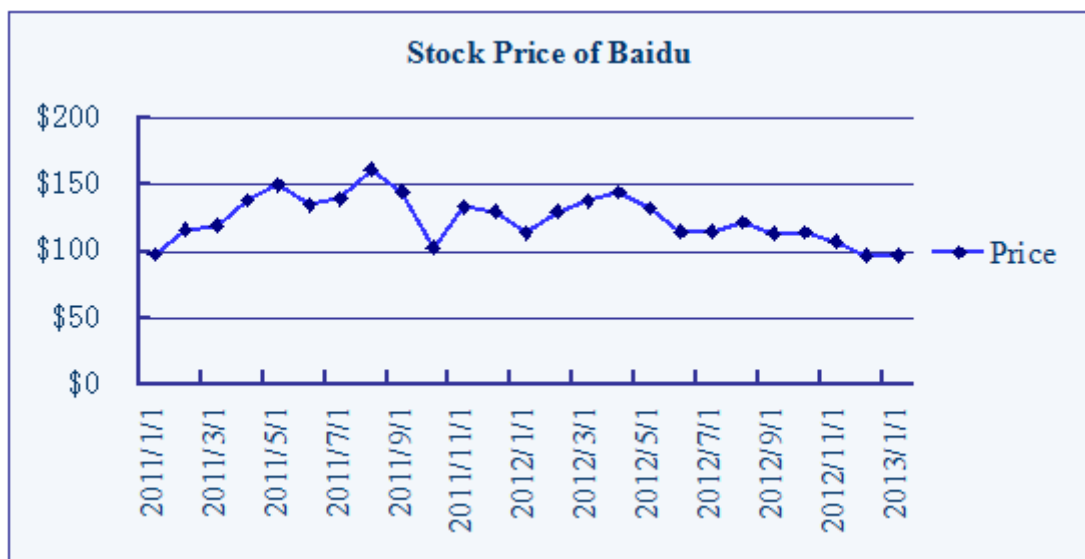
realize very high profit and return.

3) The number of EPS is relatively high in the whole market which reflects the high earnings per share. Shareholders can benefit from high earnings. And it contributes to attract more investors.

4) Baidu's beta coefficient is 1.73 which represents that Baidu's price not so keep with the market's price.

### ***Average Yield and Volatility***

*Chart 4.4 Stock Price of Baidu*



Source: [www.NASDAQ.com](http://www.NASDAQ.com)

From Chart 4.4, we can find that stock prices of Baidu were almost between \$100 and \$150 in two years. Because the price range is large, so the floatability the price is a little strong. After calculation, the results are that average monthly yield is 0.8% and monthly volatility is 12.5%. The number of 0.8% is not a big yield but stock prices of Baidu were high at that time, so base is big. The monthly volatility of 12.5% is big. Compared with monthly data, yearly data is a little higher. Because time range is increased, then the possibility of change is bigger. On the whole, they keep relatively stable.

### **4.3 Comparison of IPO of Qihoo and Baidu**

In their initial roadshow, they successfully raised funds and their values of initial pricing are underestimate. These two companies attracted so many large investors from the beginning. Their final pricing were both higher than initial, Qihoo changed their pricing range from \$10.50-12.50 to \$13.50-14.50 and Baidu changed their pricing range from \$ 19.00-21.00 to \$27. Although their shares are different, they both showed great performance in the first day of listing. Their price of stocks grew up more than one hundred percent compared with the opening price. Especially for Baidu, their stock price grew up more than \$100 with such a quick speed. They both reached high market capitalization in the first day of transaction. Their investors all got enormous return from it.

### **4.4 Comparison of IPO of NYSE and NASDAQ**

When the company is listed, it must choose according the requirements from different exchange and know about their listing standards and IPO process.

#### **4.4.1 The choice of the stock exchange**

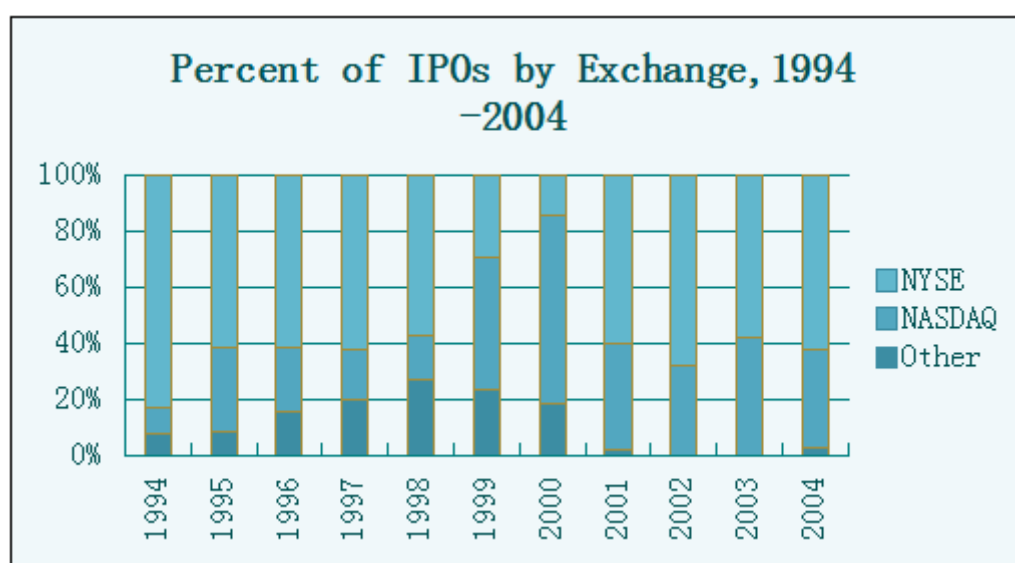
Choosing which listed Exchange is one of the important decisions listed issuers need to consider. The decision depends on the following factors: the listing venue of similar companies, listing requirements and fees, corporate governance requirements and some structural differences.

##### ***Comparable companies***

Issuers usually choose Listing Exchange most of the listed companies and their nature is similar to be listing. The high-tech, bio-technology and other growth companies are usually listed on the NASDAQ. As Chart 4.3, in the peak period of the technology bubble, most of the

enterprises listed issuers are high-growth companies, most of which are listed on the NASDAQ. By contrast, industry companies of large, mature and in the stable development tend to choose New York Stock Exchange, which is generally considered the exchange of blue-chip companies. The companies listed New York Stock Exchange are usually larger companies. Generally per share price of these companies is relatively high and transactions are larger, and they are more willing to assign dividends.

*Chart 4.5 Listed companies' proportions of different exchange (1994-2004)*



Source: An Issuer's Guide to Initial Public Offering

### ***Listing requirements***

New York Stock Exchange and NASDAQ have different initial and follow-up requirements for companies listed in the Exchange. In contrast, New York Stock Exchange will have more stringent requirements. Recently, New York Stock Exchange becomes the preferred stock exchange largest listed companies financing in excess of \$100 million. This reflects two basic trends, the number of spin-off companies gradually increases, these spin-off companies are generally large, mature companies. In addition, more and more new listed companies are large mature enterprises, the above enterprises can meet the needs of the New York Stock Exchange listing requirements. Second, many companies more inclined to choose the parent company listed on the Stock Exchange for listing when subsidiary is spin-off.

### ***Corporate governance factors***

In order to allow investors to have more trust on the financial disclosure system, and have more confidence in harmonization of the target of managers and shareholders about corporate governance, New York Stock Exchange and NASDAQ have more stringent requirements about "Sarbanes-Oxley Act" in its listed companies. There are many similarities in the corporate governance requirements of New York Stock Exchange and NASDAQ, for example they have a majority of independent directors, the audit committee can only be took by an independent director. The New York Stock Exchange requires at least one financial expert on audit committee, while the NASDAQ requires the financial veteran. Some requirements will be different according to the different requirements of the Exchange. In New York Stock Exchange, each company is required to comply with and disclose the company's management policy, and every year will force the CEO that the company comply with Exchange corporate governance requirements. In contrast, NASDAQ has more requests in this regard than New York Stock Exchange. For example, the NASDAQ listed companies and related party transactions must obtain the consent of the Audit Committee.

### ***Trading mechanism***

New York Stock Exchange centralized market system, which is responsible for two-way trade of each stock by an authorized dealer. Franchise dealers have an obligation to ensure the liquidity of the stock and reduce stock price volatility, and are responsible for the elimination of the difference between the buying and selling. On the other hand, NASDAQ uses a multiple market maker system, these market maker transactions by electronic quotation system. NASDAQ market makers are not responsible for to ensure the liquidity of the stock and the stock price volatility. If the size of the outstanding shares is same, in general NASDAQ listed companies are traded more frequently. New York Stock Exchange and NASDAQ have insisted that their transactions cost more than the other. Direct costs Annual listing fees and the annual fee will vary with the size of the company. Overall, the cost of New York Stock Exchange will be higher than the cost listed on the NASDAQ.



#### **4.4.2 Comparison of listing standards of NYSE and NASDAQ**

New York Stock Exchange was established in 1817 which is the largest and most representative stock exchange, the world's largest organization is the most robust, best-equipped, most rigorous management. It has a significant impact on the world economy. In the end of 1997, the number of companies listed on the New York Stock Exchange is 3046 with the stock market value of \$11 trillion, the number of shares of listed stock of nearly 207 billion shares, an average daily turnover of more than 500 million shares and \$22 billion. NASDAQ securities trading system known to the world as the United States, named the second board market, established in 1971 and it is the operation of the National Association of Securities Dealers Automated Quotation System which is a support technological innovation in the market. By the end of December 1999, there are more than 4,800 listed companies in NASDAQ with market capitalization of \$5.2 trillion, emerged as the world's second-largest stock market. The number of listed companies is over the New York Stock Exchange. All the listed companies in the NASDAQ-listed, there are nearly 2,000 high-tech companies; the proportion is up to 40%.

##### *The degree of dispersed ownership and circulation*

In New York Stock Exchange, the company must meet the requirement that the public hold at least 100 million shares and any one of the following. There are at least 2000 shareholders holding more than 100 shares or at least 2200 shareholders. In the last six months, the average monthly trading volume is more than 10 million shares or at least 500 shareholders. In the last twelve months, the average monthly transaction volume is more than 100 million shares.

In NASDAQ, at least 400 shareholders have more than 100 shares. The public hold at least 110 million shares. There are at least four market makers and the lowest offer is \$5.

##### *The total market capitalization and the public shares*

In New York Stock Exchange, there are at least \$100 million public shares (calculated by market capitalization) or public shares are not less than \$60 million when listed.

In NASDAQ, market value of listed securities is more than \$75 million or there are total assets of 750 million U.S. dollars and total revenue of \$75 million ( in last two financial years or two financial years in the last three financial years.

#### *Other financial standards*

In New York Stock Exchange, the company has to meet the criteria in earnings or operating cash flow or global market capitalization. About earnings, accumulated pre-tax earnings are \$10 million in the past three years - every yearly earnings are at least \$2,000,000 in the last two years (must remain profitable in the past three years). About operating cash flow, the world market capacity is more than \$500 million and operating income is more than \$100,000,000 (in the last year). In the past three years, cumulative operating cash flow is \$25 million and never negative. About global market capitalization, global market capacity is more than \$750 million and operating income is more than \$75 million in most recent fiscal year.

In NASDAQ, no profit and are not required to have a two-year operating history in the case of the standard 3.

#### *Cost*

In New York Stock Exchange, the listing fees are between \$100,000 and \$250,000 . Annual fee is between \$ 35,000 and \$500,000 occlusion \$100,000-250,000 annual fee.

In NASDAQ, the listing fees are between \$100,000 and \$150,000. The annual fee is between \$24,500 and \$75,000.

### **4.4.3 Comparison of process of IPO in NYSE and NASDAQ**

Although in the United States, IPOs conditions of NYSE and NASDAQ are not same, but for the IPO process, they are almost the same just like the Shenzhen Stock Exchange and the Shanghai Stock Exchange, the motherboard and the SME board in China.

## 4.5 2012 IPO End-of-Year Snapshot

From this graph, we can conclude that NYSE Euronext is the Global Leader in IPO Proceeds Raised for Second Consecutive Year. New York, Amsterdam, Brussels, Lisbon, London, Paris – 19 December 2012 – NYSE Euronext (NYSE), for the second consecutive year, raised more proceeds from Initial Public Offerings (IPOs) than any other global exchange group in 2012 with \$36 billion in total global proceeds raised from 117 IPOs and listed the majority of U.S. technology IPOs. In the U.S., the New York Stock Exchange (NYSE) and NYSE MKT combined led the market with 79 IPOs and 16 transfers. In Europe, NYSE Euronext welcomed 25 new listings, with approximately €2.7 billion (\$3.5 billion) in proceeds raised.<sup>10</sup>

*Chart 4.4 2012 IPO End-of-Year Snapshot*

### 2012 IPO End-of-Year Snapshot



Source: <https://usequities.nyx.com/listings/ipo-snapshot>

<sup>10</sup> Source: <https://usequities.nyx.com/listings/ipo-snapshot>

## 4.6 Summary

This section compares the IPO of Qihoo and Baidu and conditions and processes of IPO of New York Stock Exchange and NASDAQ. It can be found that two companies both had long time preparation and complicated IPO processes, but their situations from the beginning to the end of IPO are different especially in offer amount and price development after IPO. And two major exchanges have adopted double standards in the United States and non-US companies about listing; the standards of non-US companies are generally lower than the U.S. standards. NASDAQ listing standards are divided into two parts which are national market standards and small market standards. In the listing process, the two major exchanges are similar, including the formation of the advisory group, due diligence, market counseling, registration, roadshows and marketing inquiry pricing, stock sales, traded. Under normal circumstances, the entire process takes approximately 6 to 9 months.

## 5. Conclusion

The objective of this thesis was to compare selected IPOs of NYSE and NASDAQ. Through analysis and comparison of companies of development and present situation, we could conclude that Qihoo has more potential than Baidu and it is new and innovative company. And its investors got much benefit from going public. It also shows that New York Stock Exchange is a global leader in IPO. About NASDAQ, its potential is still can not be little accounted of by us. This thesis also discussed two companies from NYSE and NASDAQ in different ways.

In current, more and more companies are planning to IPO in U.S and U.S Stock Exchange is an ideal site for going public for companies from all over the world. IPO which as a significant step for going public is what a company should cautiously deal with. The companies can choose the suitable one to IPO according to requirements from disparate exchanges in the United States. The U.S. IPO market is enormous compared with that of most countries. The fast development and diversity deserves the learning of other countries. For China, as a new market compared to U.S market, it should take example by U.S.

There is no doubt that the U.S. capital markets in the depth and breadth of the market, as well as the degree of internationalization, still has a large advantage. I hope large-scale private enterprises and state-owned enterprises of China can make better use of the U.S. capital markets and promote the process of internationalization. About exchange, New York Stock Exchange remains an absolute advantage. IPO, quality, amount of financing, the market value of the scale of China, which compared to other U.S. Exchanges, have a comparative advantage. In particular, the New York Stock Exchange this advantage expanded to the internet industry now.

In the future, all stock exchanges will improve their mechanisms, functions and so on. And companies will benefit from it. The markets will promote its progress by mutually.

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- [11]<https://usequities.nyx.com/ipo>

# List of Abbreviations

NASDAQ: National Association of Securities Dealers Automated Quotations

NYSE: New York Stock Exchange

IPO: Initial Public Offering

VOC: Vereenigde Oost-Indische Compagnie

GAAP: General Accepted Accounting Principle

IASB: International Accounting Standards Board

SEC: Securities and Exchange Commission

EDP: The Executive Development Programs

AWK: American Water Works

RETI: Real Estate Investment Trusts

SPAC: Special Purpose Acquisition Corporation

NASD: National Association of Securities Dealers

OTC: Over The Counter

SOES: Small Order Execution System

PSE: Philadelphia Stock Exchange

MID: Market Intelligence Desk

CEO: Chief Executive Officer

IRS: Internal Revenue Service

FAS: Financial Accounting Standards

ADS: American depositary shares

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Ostrava dated 7<sup>th</sup> May 2013

Qianwen Li

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